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Economic Intelligence Weekly 4 Jun 75 ER EIW 75-22

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Economic Intelligence Weekly

Secret

ER EIW 75-22
4 June 1975

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ECONOMIC INTELLIGENCE WEEKLY

4 June 1975

Overview

Projected Growth Rates for Major Foreign Countries Have Again Been Trimmed in the latest OECD forecast. Output in the six economies is now expected to drop at an annual rate of 1.4% in the first half of 1975 and expand at rates of 1.4% and 4.0% in the next two half-years. In a marked upward revision of its earlier estimates, the OECD Secretariat now forecasts real growth rates in the United States of 4.7% in the second half of 1975 and 5.2% in the first half of 1976. It is estimating that US GNP will drop at a 7.6% rate in the current half-year.

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We believe the OECD estimates are overly optimistic. [redacted]

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Estimated Current Account Deficits for 1975 Have Also Been Reduced by the OECD for France, Italy, Japan, and the United Kingdom; at the same time the Secretariat has lowered its projected surplus for West Germany. The current account deficit for OECD members as a group is now forecast at $19 billion for the year, down from $34 billion in 1974. The Secretariat predicts better performance on the inflation front for all the countries except Britain. (Confidential)

Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892.

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Articles

PORTUGAL: ECONOMIC DETERIORATION QUICKENS

The Portuguese economic situation has worsened since the 25 April election of a constituent assembly, which revealed the narrow base of the Communist Party but brought little change in the real balance of power. Unbridled labor turmoil and continued government assaults on private enterprise have further reduced production and accelerated the loss of foreign reserves.

Labor Turmoil

Work stoppages, which were cutting into output before the election, have become more widespread over the last month. Labor unions now appear to be motivated at least as strongly by political considerations as by bread-and-butter issues. In recent weeks, for example:

- The Communist-dominated printers' union forced the government to shut down the Socialist newspaper "Republica" -- one of the few papers not controlled by the Communist Party or the government – because of its outspoken editorial policy.

- The 120,000 members of the hotel and restaurant employees' union, also Communist-controlled, have staged a series of work stoppages, hoping to undermine private ownership in the tourist industry.

- The Socialist-controlled union of chemical, plastics, and rubber workers has struck 168 enterprises to protest Communist domination of the labor movement through the government-sanctioned national federation and to back up its demand for higher pay.

Workers have seized dozens of plants. The takeovers include several foreign-owned facilities, even though the military government had granted foreign companies immunity from nationalization. Otis Elevator has stopped its Portuguese operation, which employed 300 people, because Lisbon refused to evict workers who had taken over the plant. Torrington Corporation may soon lose its 390-employee needle plant for similar reasons; Mueller Montagem, a small US construction company, also has been seized. US investors have a $200 million stake in Portugal; British investors stand to lose even more.

Government Actions

Private investors have found little encouragement in official moves. In mid-May Lisbon again boosted the minimum wage despite a one-third increase in real wage

rates since mid-1974. At the same time, it slapped a ceiling on managerial salaries, even though Portugal already was losing technical and managerial talent. The recently nationalized banking system has intensified the credit squeeze on private companies, already driven to the wall by controls on prices in the face of huge wage increases. By late May, the government had intervened some 120 near-bankrupt companies to keep them from going under. Lisbon also used the intervention tactic to take control of the largest conglomerate, which was not yet hard pressed.

In its third round of official nationalizations, Lisbon took over the cement, tobacco, and cellulose industries last month. The government reportedly now controls two-thirds of industry, in large part because the banks and insurance companies nationalized in March held large interests in many firms. Textile, woodworking, and cork-processing plants are the most important industrial facilities still in private hands. Little is known about how fast Lisbon is carrying out its plan to expropriate agricultural holdings in excess of stated limits and to organize them into cooperatives.

Outlook

The economic slide will not be halted until Lisbon gains effective control over the many enterprises it has wrested from private hands. No program for managing the nationalized sector has emerged so far, and the task is becoming more difficult all the time because of the exodus of trained manpower. If private enterprise is to play a role in recovery, Lisbon will have to define clearly the limits of its nationalization program, curtail harassment by labor, and adopt reasonable regulatory measures. So far, AFM leaders have spoken in grandiose terms of a transition to socialism and promised that "rules of the game" will be published shortly.

Because of these unsettled conditions, GNP almost certainly will decline in 1975. Unemployment is likely to reach 10% as more soldiers return from Africa and jobs for foreign workers in the European Community remain scarce.

Foreign reserves, reportedly bolstered by a gold-secured standby loan, will resume their decline despite new tariffs of up to 30% on consumer durables. Demand for imported consumer goods is mirroring the rise in incomes, while receipts from exports, worker remittances, tourism, and foreign investment are dropping. Capital flight appears to be substantial. Reserves reportedly fell to $1.8 billion last month, compared with $2.8 billion in early 1974, before the military coup. (Confidential)■

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SOUTH VIETNAM: GRADUAL ECONOMIC TRANSFORMATION

The new government has shown restraint thus far in pushing the South Vietnamese economy toward complete state ownership and control. Saigon needs time to work out its program and probably is awaiting a measure of economic recovery. A go-slow policy also may be prompted by a desire to attract Western aid.

Private Activity Survives – in Places

Private economic activity still is widespread despite the order of 1 May nationalizing all productive resources. The government has started to move refugees, former soldiers, and civil servants into the countryside to raise food production, without taking steps as yet to collectivize agriculture. Officials have recently stated that private firms have a role to play in reviving industry, reportedly operating at only 25% of capacity in the first weeks following the Communist takeover. Factories abandoned by former owners have in many cases been taken over by workers, pending instructions from Saigon.

Some of the private firms that apparently are being allowed to continue operations are foreign owned. For example, companies partly owned by Japanese have resumed assembly of radios, fans, and other electrical appliances, but the operating arrangements are not known.

The private marketplace is still the hub of activity. Recent increases in food prices show that the regime has not yet successfully fixed prices for all sellers. Both private merchants and the government apparently are slow in moving rice to urban markets; as a result, local shortages are developing and prices are rising in spite of ample countrywide stocks. Merchants are reluctant to engage in normal trade as long as the value of money is uncertain, and officials may be using shortages to encourage urban residents to migrate to the countryside. Businessmen are increasingly wary of accepting payment in piasters, still the official medium of exchange, which may be depreciated or rendered invalid when the authorities reopen the banks.

Saigon has announced that, for the present, most government and private workers must be paid at their former rates. In time, the regime is expected to lower the overall wage structure and considerably narrow the range in wages.

Motives

Saigon's current economic policy reflects short-term pragmatism far more than ideology. Revival of production, creation of jobs, and reestablishment of social order presumably are immediate goals of high priority. The Hanoi leadership now guiding policy in the south perhaps is also motivated by an interest in expanding economic relations with the non-Communist world, including the United States. Shipments to the new regime have been limited thus far to petroleum from the USSR, sugar from Cuba, and unspecified commodity aid from China. The only major publicized aid agreement is a Soviet commitment to supply unknown amounts of petroleum, fertilizer, vehicles, medicines, food, fabrics, and consumer goods. Saigon has announced its willingness to enter into trade and aid negotiations with non-Communist countries, presumably to limit dependence on the USSR and China. It also may ask Western companies to resume development of offshore oil fields.

When its most immediate aims are realized, the regime can be expected to move ahead with far-reaching changes in the organization and management of the economy. (Confidential)

* * * *

INTERNATIONAL TIN NEGOTIATIONS UNDER WAY

In the negotiations for a new five-year tin agreement now taking place in Geneva, producing nations again are seeking means to buoy prices and export earnings. Under the current international agreement, which ends on 30 June 1976, prices soared during the 1973-74 commodity boom and remain high in spite of a downturn since mid-1974.

At the Geneva meeting, producers are calling for

- a doubling of the limit on buffer stocks to 40,000 tons, or three months of world production;
- contributions from tin-consuming nations and the IMF or World Bank to help finance buffer stocks;

- another substantial boost in the floor price of tin; and

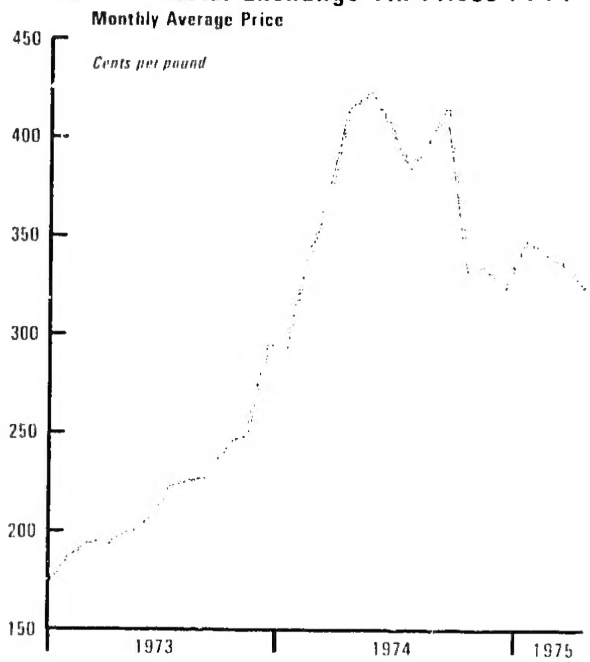
- new signatories to the agreement, notably Brazil, China, and the United States.

The proposal that consumers help finance the buffer stock could bring a confrontation with developed countries. France and the Netherlands, the only industrial countries now contributing, favor the proposal; West Germany and Japan are opposed; the United Kingdom is undecided. Most EC countries and Japan are concerned about setting a precedent for financing buffer stocks of other commodities, such as copper.

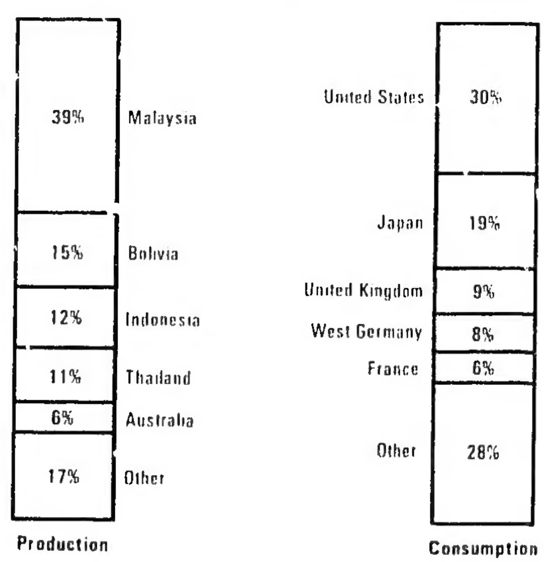
Tin is the only metal for which minimum and maximum prices are established by international agreement. Producers and consumers participate equally in the decisions of the International Tin Council on prices, buffer stock operations, and export quotas. In recent years the arrangement has not prevented enormous increases in the market price of tin, since buffer stocks have not been adequate to fill the gap between supply and demand.

Because the recession in industrial countries has reduced the price of tin on the London Metal Exchange to $3.12 a pound–25% below the

London Metal Exchange Tin Prices . . . .



Tin Mine Production and Refined Consumption by Country, 1974 . . . .



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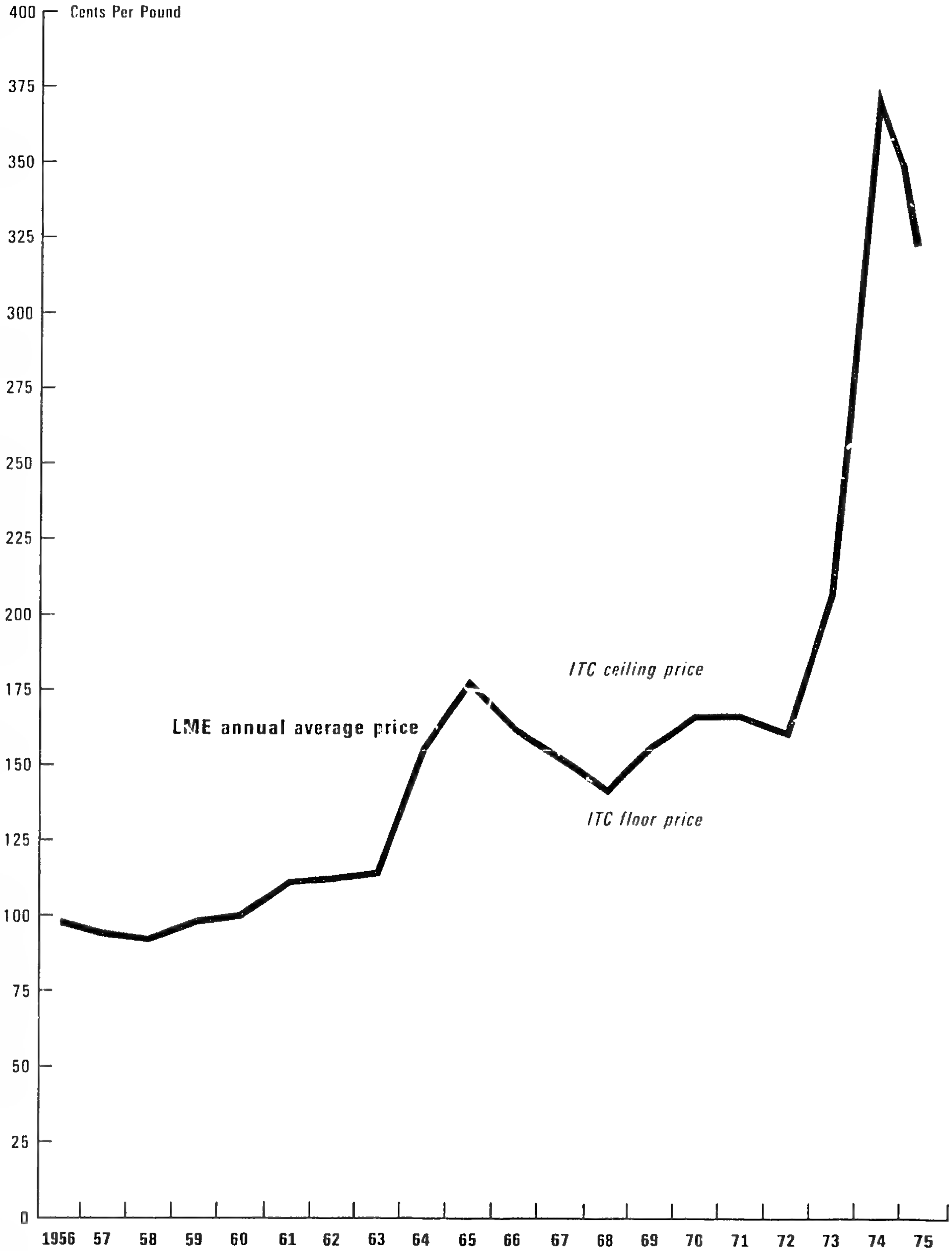
Tin Prices . . . .



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Free World: Tin Production and Consumption

			Thousand Tons
	1972	1973	1974
Mine production (metal content)	195.4	185.3	180.0
Production (primary tin metal)	190.0	184.9	178.0
Consumption (primary tin metal)	191.1	212.4	205.0

1974 peak producers will push hard for arrangements that would at least maintain current prices. An 18% cutback in exports decreed by the Council in April and substantial purchases for buffer stocks have not curtailed the price slide. The high level of tin stocks in consuming countries threatens to depress prices further unless demand recovers soon.

In pushing for a higher floor price, LDC tin producers will point to the 8% decline in Free World mine production during 1973-74. Meanwhile, consumption grew by 7%, with sales from the US stockpile and ITC buffer stocks helping to cover the gap. A sharp rise in production costs continues to slow investment in new mines. Costs in Malaysia, which account for two-fifths of world production, jumped by 50% in 1974 alone. According to a recent IMF study, Bolivian mining costs are close to the break-even point. (Confidential)■

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Notes

Waning Soviet Interest in US Wide-Bodied Aircraft

After more than three years of intermittent talks with Boeing, Lockheed, and McDonnell Douglas, Soviet officials have at least temporarily discontinued negotiations for US wide-bodied aircraft. Moscow's interest in a deal cooled when the United States rejected proposals for an overall aviation package. The Soviets

had been pushing for construction of a turnkey aircraft plant in the USSR or, at the least, a license to build aircraft with the aid of US technicians and equipment. Soviet interest also has diminished because of cost overruns in several domestic aircraft programs and profitability problems for Aeroflot. (Confidential No Foreign Dissem)

Moscow Rejects Offer of US Short-Term Credit

The USSR recently informed Bank of America that it is not interested in the bank's offer to arrange a $500 million line of short-term credit. The Soviets stated that they were interested only in medium- and long-term credits. As a trial balloon last February, the president of the bank said that a consortium could be formed to provide the USSR with a $500 million line of revolving six-month credits. Because of US limitations on bank lending to any one customer, the Soviets may have felt that acceptance of short-term credit would reduce the amount of longer term financing available at a later date. (Confidential)

Publication of Interest*

Communist Aid and Trade Activities in Less Developed Countries of the Free World, April 1975
(ER RP 75-15, May 1975, Secret No Foreign Dissem)

The monthly report for April features a review of Soviet fishing assistance to LDCs, with emphasis on developments over the past year and a half.

* Copies of this publication may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

June 4, 1975

Approved For Release 2000/09/14 : CIA-RDP86T00608R000500140022-9

Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 7402 or 351-7402. 25X1A

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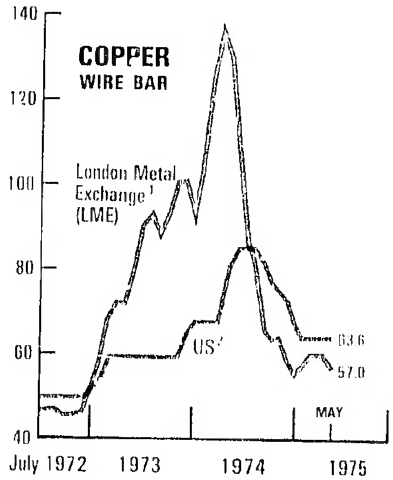
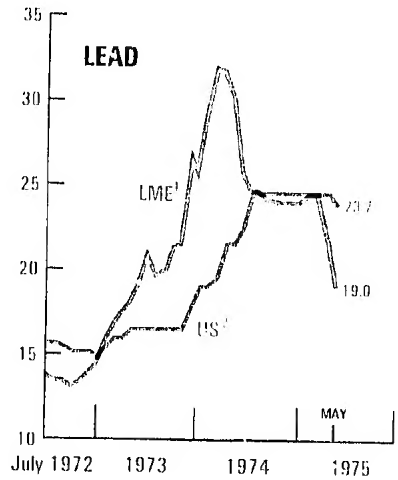
INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price



¢ Per Pound

	LME	US
2 Jun	55.5	63.6
27 May	57.5	63.6
Apr 75	60.2	63.6
May 74	130.4	80.8

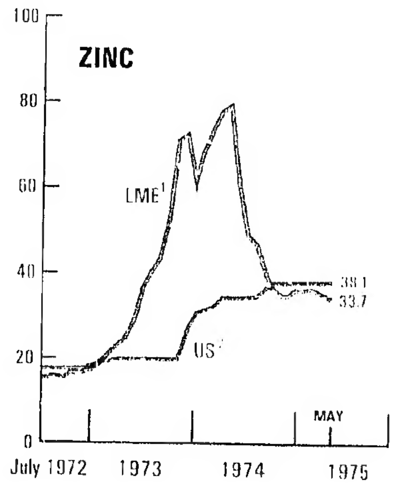


¢ Per Pound

	LME	US
2 Jun	15.4	22.8
27 May	16.4	[illegible]
Apr 75	21.6	24.5
May 74	30.3	21.5

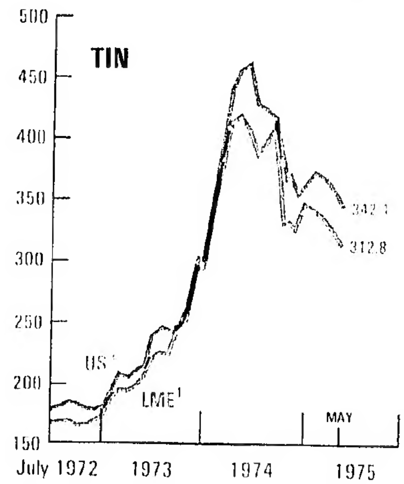
SELECTED MATERIA

Aluminum Major US Prod. ¢/lb
Steel Composite, $ LT
Iron Ore Non Bessemer Old Range,
Chrome Ore Russian $ MT
Chrome Ore S Africa $ LT
Ferrochrome US Charge ¢/lb
Nickel Major US Prod Cathode $/lb
Manganese Ore 48 Mn $LT
Tungsten Ore 65% WO_3 $ST
Mercury NY $ /flask
Silver LME cash ¢ Troy Oz



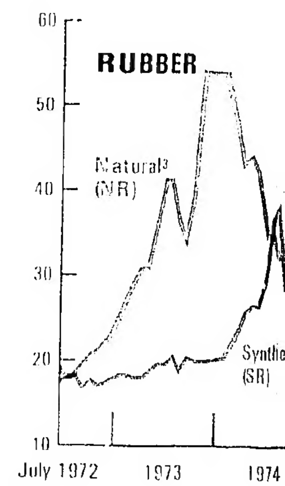
¢ Per Pound

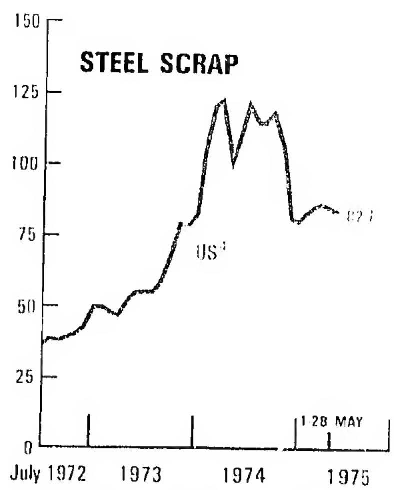
	LME	US
2 Jun	32.9	38.5
27 May	33.0	38.5
Apr 75	35.4	38.0
May 74	80.6	34.8



¢ Per Pound

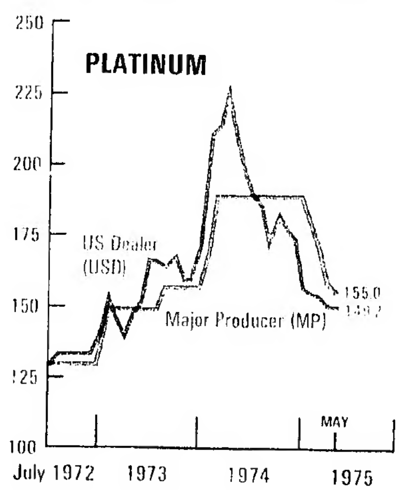
	LME	US
2 Jun	312.0	[illegible]
27 May	313.8	[illegible]
Apr 75	323.2	[illegible]
May 74	422.1	[illegible]





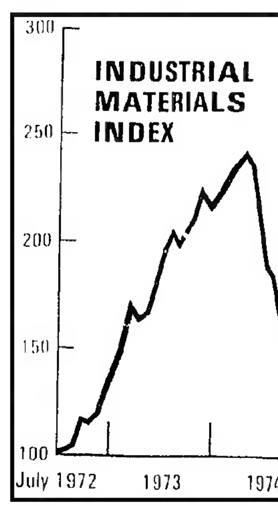
$ Per Long Ton

	US
28 May	73.8
27 May	80.7
Apr 75	85.7
May 74	96.6



$ Per Troy Ounce

	MP	USD
2 Jun	155.0	[illegible]
27 May	155.0	152.5
Apr 75	157.7	[illegible]
May 74	190.0	[illegible]



[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME

[2] Producers' price, covers most primary metals sold in the United States

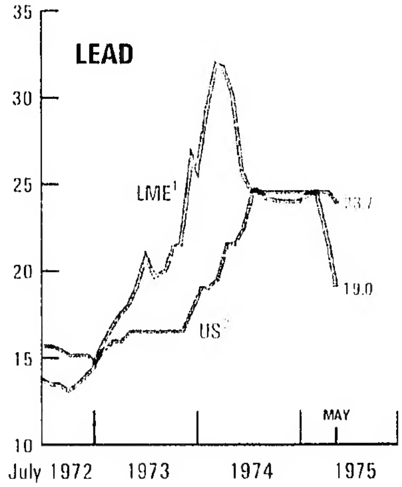
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh

[5] S type styrene, US f.o.s. export price

...ALS PRICES Monthly Average Cash Price

¢ Per Pound

	LME	US
2 Jun	55.5	63.6
27 May	57.9	63.6
Apr 75	60.2	63.6
May 74	130.4	80.8



¢ Per Pound

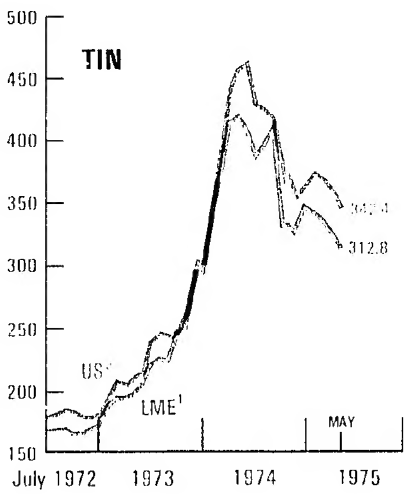
	LME	US
2 Jun	15.4	[illegible]
27 May	16.4	[illegible]
Apr 75	21.6	[illegible]
May 74	30.3	[illegible]

SELECTED MATERIALS

	Current	Nov 74	Jan 74	Jan 73
Aluminum Major US Prod, ¢ Lb	39 00	39 00	29 00	25 00
Steel Composite, $ LT	289 63	278 43	212 13	209 66
Iron Ore Non Bessemer Old Range $ LT	17 53	16 00	12 16	11 96
Chrome Ore Russian $ MT	135 00	55 50	38 00	45 75
Chrome Ore S Africa $ LT	57 50	49 50	33 50	25 50
Ferrochrome US Charge, ¢ Lb	50 00	42 00	22 50	23 00
Nickel Major US Prod Cathode $ Lb	2 01	1 85	1 62	1 53
Manganese Ore 48% Mn $ LT	67 20	54 72	52 80	31 40
Tungsten Ore 65% WO_3 $ ST	5,702 97	6,021 34	2,872 40	2,241 20
Mercury NY $ 76 lb Flask	160 00	254 94	275 54	282 50
Silver LME cash, ¢ Troy Oz	459 22	467 01	360 29	200 15

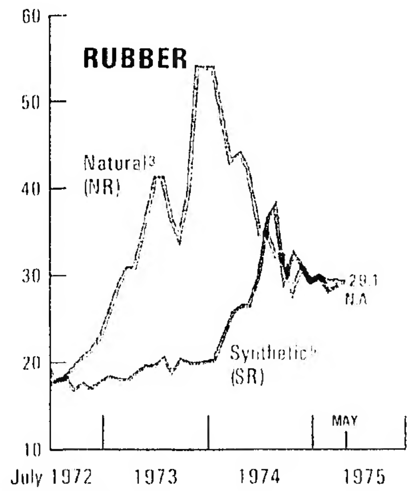
¢ Per Pound

	LME	US
2 Jun	32.9	38.5
27 May	33.0	38.5
Apr 75	35.4	38.0
May 74	80.6	34.8



¢ Per Pound

	LME	US
2 Jun	312.0	[illegible]
27 May	313.8	[illegible]
Apr 75	323 2	[illegible]
May 74	422 1	[illegible]

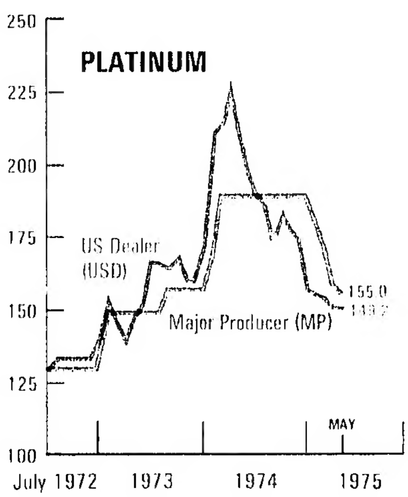


¢ Per Pound

	NR	SR
2 Jun	29.2	N.A.
27 May	29.2	N.A.
Apr 75	29.2	28.5
May 74	43.8	26.5

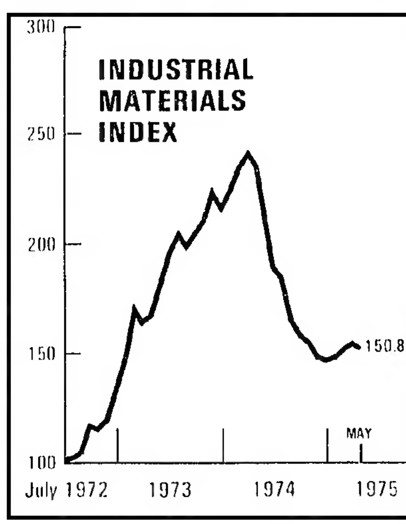
$ Per Long Ton

	US
28 May	79.8
27 May	80.7
Apr 75	85.7
May 74	96.6



$ Per Troy Ounce

	MP	USD
2 Jun	155.0	[illegible]
27 May	155.0	[illegible]
Apr 75	157.7	[illegible]
May 74	190 0	[illegible]



1970 = 100

This is a compiled index by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

[1]...by major world producers and traders.
[2]...re actually traded on the LME.
[3]...in the United States.
[4]...e for Chicago, Philadelphia, and Pittsburgh.

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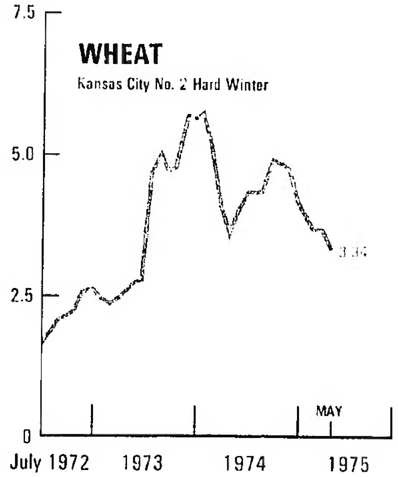
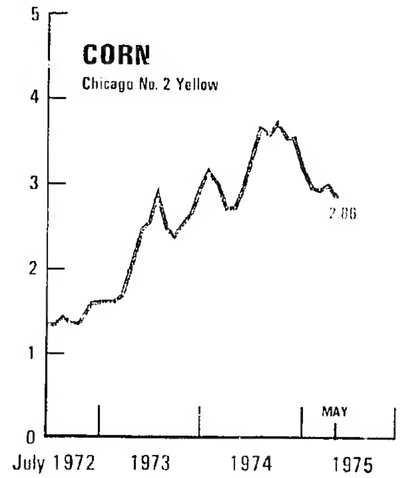
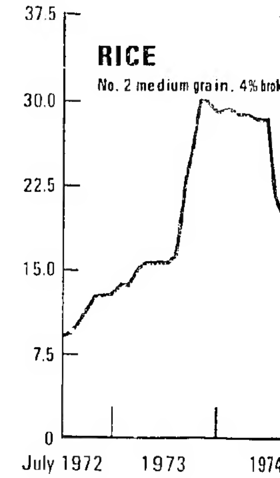
AGRICULTURAL PRICES Monthly Average Cash Price

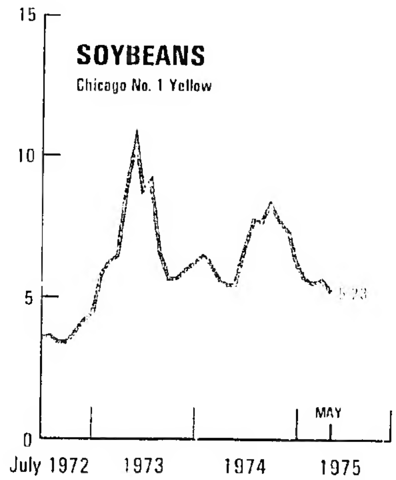


2 Jun	3.16
27 May	3.26
Apr 75	3.66
May 74	3.58

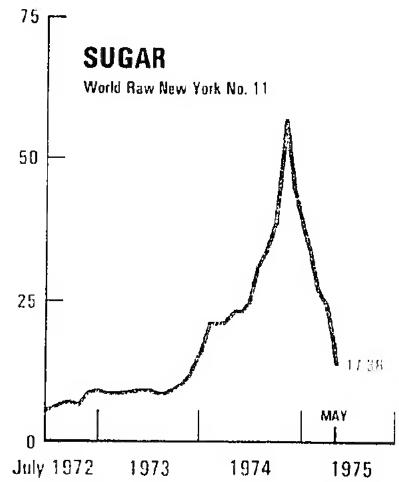


2 Jun	2.85
27 May	2.79
Apr 75	2.99
May 74	2.70

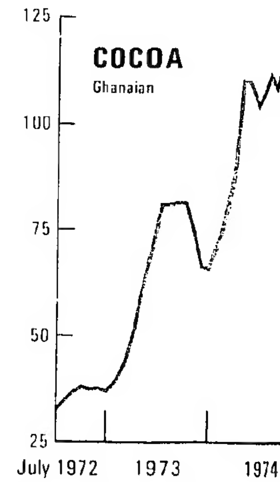


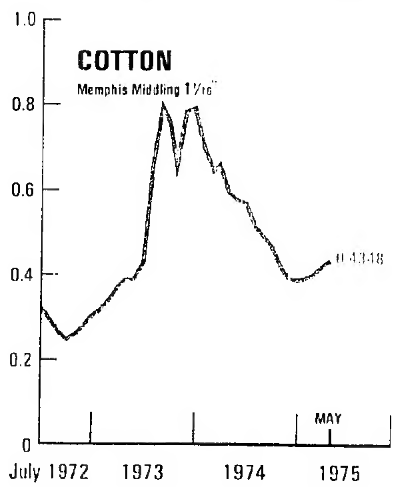


2 Jun	4.93
27 May	4.99
Apr 75	5.76
May 74	5.42

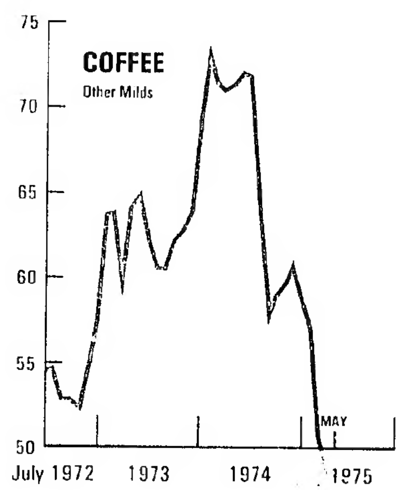


2 Jun	14.75
27 May	17.00
Apr 75	24.06
May 74	23.60

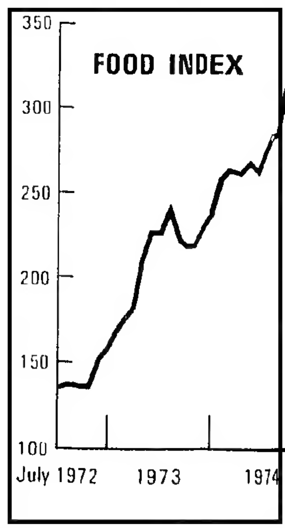




2 Jun	0.4295
27 May	0.4240
Apr 75	0.4237
May 74	0.5880



2 Jun	50.00
27 May	50.75
Apr 75	48.48
May 74	71.16



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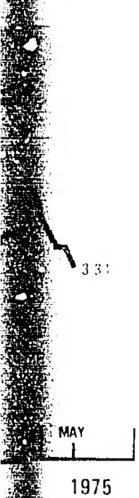
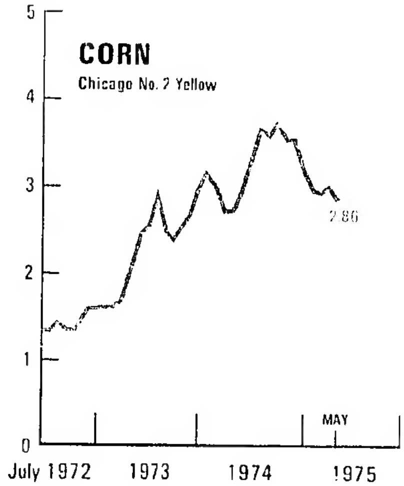
CES Monthly Average Cash Price



$ Per Bushel

2 Jun	3.16
27 May	3.26
Apr 75	3.66
May 74	3.58



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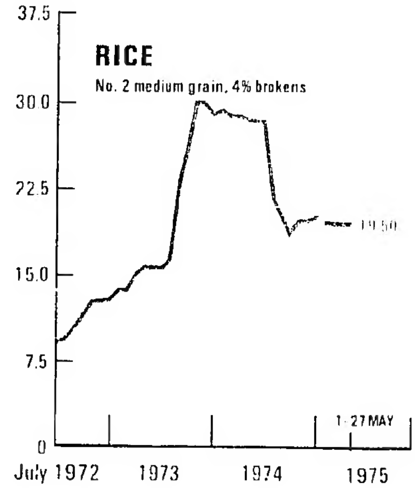
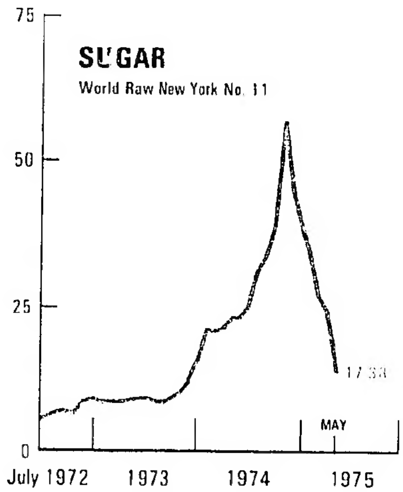


$ Per cwt.
f.o.b. mills, Houston, Tex.

27 May	19.50
19 May	19.50
Apr 75	19.50
May 74	28.60

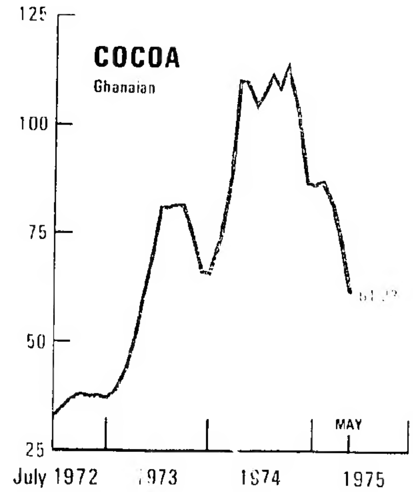
$ Per Bushel

2 Jun	4.93
27 May	4.99
Apr 75	5.76
May 74	5.42



¢ Per Pound

2 Jun	14.75
27 May	17.00
Apr 75	24.06
May 74	23.60

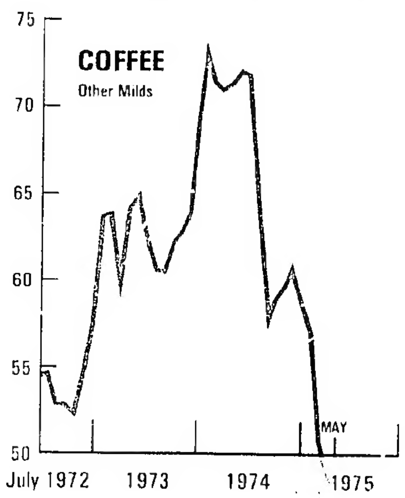


¢ Per Pound
New York price

2 Jun	62.00
27 May	63.50
Apr 75	72.92
May 74	109.70

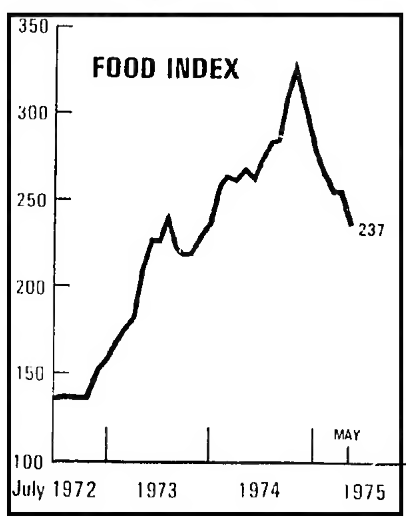
$ Per Pound

2 Jun	0.4295
27 May	0.4240
Apr 75	0.4237
May 74	0.5880



¢ Per Pound

2 Jun	50.00
27 May	50.75
Apr 75	48.48
May 74	71.16



CPYRGHT

1970 = 100 CPYRGHT

This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.